

Press Release

Embassy One Developers Private Limited

October 03, 2022

Rating Reaffirmed



| Product | Quantum (Rs. Cr) | Long Term Rating | Short Term Rating |
|------------------------------------|------------------|---|-------------------|
| Bank Loan Ratings | 700.00 | ACUITE BBB- Reaffirmed Rating Watch with Developing Implication | - |
| Total Outstanding Quantum (Rs. Cr) | 700.00 | - | - |
| Total Withdrawn Quantum (Rs. Cr) | 0.00 | - | - |

Rating Rationale

Acuite has reaffirmed its long-term rating of 'ACUITE BBB-' (read as ACUITE triple B Minus) to the Rs.700.00 Cr bank facilities of Embassy One Developers Private Limited (EODPL). The rating is now placed on 'Watch with developing implications'.

Rationale for Reaffirmation and 'Watch with developing implications'

Acuite has reaffirmed the rating and has placed it on watch primarily on account of EODPL's ongoing merger with Indiabulls Real Estate Limited (IBREL). Currently, NCLT approval is pending for the merger and the process is expected to be completed by December 2022. The rating considers the infusion of funds by the promoters to support EODPL's operations. Subordinated loans from promoters have increased to Rs. 265 Cr. as on March 31, 2022 from Rs. 30 Cr. as on March 31, 2021. The rating also continues to factor the advanced stage of completion of construction. However, tepid sales and collection traction continues to impart a negative bias on the rating, this partially mitigated on account of promoters ability to refinance its debt. The promoters are currently in advanced stages of discussions for the refinance of the debt with lenders.

About the Company

Embassy One Developers Private Limited (EODPL) is a SPV, formed in 2007, by Embassy Group and Blackstone. EODPL was incorporated with intent to undertake Embassy One project, Bellary Road, Bangalore. Blackstone holds 55 per cent of the equity share capital and rest is held by Embassy Inn Private Limited.

About the Group

Embassy Group was incorporated in 1993 by Mr. Jitendra Virwani. The group is one of the leading real estate developers. The group has developed 55+ Million Sq. Ft. In its legacy of expertise spanning 25 years, Embassy Group has covered the entire value chain of real estate from land acquisition to the development, marketing and operation of assets. In addition, the Embassy group owns properties in the hospitality segment and is developing industrial parks and warehouses across India. It also has an extensive land bank of 1000+ acres across India. The operation spread across Indian and international markets that include Bangalore, Chennai, Pune, Coimbatore, Trivandrum, Serbia and Malaysia. The group from time to time partners with several established market players Like, Blackstone, Warburg Pincus, Taurus

Investments as well as different financial institutions to execute projects.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of EODPL to arrive at the rating

Key Rating Drivers

Strengths

Strong market position of Embassy group and Blackstone in the real estate industry

EODPL was incorporated by Embassy group and Blackstone wherein 55 percent is held by Blackstone group and the rest by Embassy group through Embassy Inn Private Limited (EIPL). The Embassy group is among the largest commercial real estate developers in the country. EODPL is engaged in development of commercial, residential and retail projects. Some its key projects include names like Embassy Tech Village, Embassy Knowledge Park in Bangalore and Embassy Splendid Tech Zone in Chennai amongst others. The group has business parks in locations such as Bangalore and Pune, with upcoming projects in Chennai and Trivandrum. The group has developed 55+ Million Sq. Ft. In its legacy of expertise spanning 25 years, Embassy Group has covered the entire value chain of real estate from land acquisition to the development, marketing and operation of assets. In addition, the Embassy Sponsor owns properties in the hospitality segment and is developing industrial parks and warehouses across India.

Advance stage of completion of its residential project

EODPL is currently developing Four Seasons residential project. This is a luxury residential project with ticket size in the range of Rs.7-25 Cr, located at Mekhri Circle, Bangalore. The project is at the advanced stage of completion and around 95-97 percent of the project cost has already been incurred as on 30 September, 2022. The project has two towers – North and South. The South Tower is already completed and the Occupation Certificate (OC) has been received. The North Tower is also almost completed and final finishing is ongoing. The OC for North Tower is likely to be received over the next 4-6 months. EODPL has signed contract for maintenance of the residential tower with Four Seasons Hotels Limited, which is an international luxury company based out of Canada.

Weaknesses

Tepid sale traction leading to reliance on support from promoter

Four Season residential project has a total of 109 units in both towers. The booking pace currently is low marked by current booking levels of 38si percent till September 2022 vis-a-vis 19 percent in March 2021. EODPL has collected ~Rs. 105 Cr. since April 2021 from new sales and collection on already sold flats. The slow pace is due to the high-ticket size in the range of Rs.7-25.00 Cr, for which the demand has witnessed moderation over the last 18 to 24 months. The slow pace of booking has led to significant reliance on support from promoters to manage the interest and the repayment obligations. The total repayment obligations stood at Rs. 395 Cr. for the period April 2021 - September 2022 out of which Rs. 105 Cr. has been serviced through collection on sales and rest through promoter contribution. The unsecured loans from promoters went up to Rs. 265 Cr. as on March 31 2022 from Rs. 30 Cr. as on March 31, 2021. EODPL had ceded its commercial assets to the REIT for the consideration of Rs.468.00 Cr. Around 50 percent of the consideration was utilized towards repayment of unsecured loans and interest expenses, and the rest amounts was given as an Intercorporate Corporate Deposit (ICD) to Embassy Inn Private Limited which are now being recovered from supporting EODPL's operations. The subdued market scenario in the real estate sector in Bangalore in past two years has affected the cash flows from the existing projects leading to higher dependence on the refinancing of the external bank debt. However, we believe that timeliness of such refinancing measures or any improvement in the sales traction resulting into healthy cash flow visibility remains a key rating sensitivity factor.

Susceptibility to cyclicity and regulatory risks impacting real estate industry

EODPL is exposed to the risk of volatile prices on account of frequent demand supply mismatches in the industry. The Real Estate sector is currently witnessing moderation in

demand on account of large amounts of unsold inventory and high borrowing costs this along with the pandemic has mounted pressure on the industry resulting in lower sales. This is primarily attributable to the high residential property prices due to persistent rollover of bank debt which has had a cascading effect on the overall financing costs. Given the high degree of financial leverage the high cost of borrowing inhibits the real estate developers' ability to reduce prices. Further, the industry is exposed to regulatory risk which is likely to impact players such as EODPL thereby impacting its operating capabilities.

ESG Factors Relevant for Rating

Embassy Group is engaged in multiple ESG initiatives including supporting government schools in Bangalore, public spaces clean up in Bangalore, installation of segregated garbage bins in Bangalore CBD, transformation of 101 under fly-over pillars, among others. Additionally, all the projects undertaken by Embassy Group have IGBC Green Gold Certification or higher. Embassy group has an active engagement towards improvising education, sustainable infrastructure, community engagement and corporate connect. The group aims to facilitate students of Government Schools with a safe learning environment for skill development through holistic interventions in Education, Health and Infrastructure. It has supported more than 85 government schools through educational and infrastructure interventions, build around 10 new government schools amongst others. Embassy group drives positive change by providing infrastructure-based solutions with new frontline services for environmental sustainability and community healthcare, it promotes grassroots results to global problems in the communities it is a part of. Embassy group is a proud partner of TAICT's (The Anonymous Indian Charitable Trust) Ecogram Waste Management Project, which aims to catalyse communities to develop and implement strategic infrastructure for sustainable environmental management. It has completed several initiatives of public spaces clean-up, installation of segregated garbage, mobile cancer detection unit amongst others.

Rating Sensitivities

- Timely project execution as per schedule while achieving the sales traction.
- Lower than expected sales traction and dilution of support from the parent company leading to increased dependence on refinancing of debt will have a negative bias on the rating

Material covenants

None

Liquidity Position

Adequate

The liquidity of EODPL is adequate marked by the continued support received from the promoters i.e. Embassy Group. The company has also started recovering the ICD, which was extended to group company post-transfer of commercial assets to the REIT. Despite sales collection remain lower than expected sales collection EODPL's liquidity is expected to remain adequate on account of availability of promoters contribution and their ability to refinance the debt.

Outlook: Not Applicable

Other Factors affecting Rating

None

Key Financials

| Particulars | Unit | FY 22 (Provisional) | FY 21 (Actual) |
|-------------------------------|---------|---------------------|----------------|
| Operating Income | Rs. Cr. | 57.16 | 15.29 |
| PAT | Rs. Cr. | (99.71) | (39.16) |
| PAT Margin | (%) | (174.45) | (256.20) |
| Total Debt/Tangible Net Worth | Times | 9.36 | 3.37 |
| PBDIT/Interest | Times | (0.08) | 0.08 |

Status of non-cooperation with previous CRA (if applicable)

CARE vide its press release dated 25 May, 2022 has mentioned the rating of EODPL to 'CARE BB/Stable/A4' Issuer not cooperating.

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Real Estate Entities: <https://www.acuite.in/view-rating-criteria-63.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History

| Date | Name of Instruments/Facilities | Term | Amount (Rs. Cr) | Rating/Outlook |
|-------------|--------------------------------|-----------|-----------------|-----------------------------------|
| 06 Jul 2021 | Term Loan | Long Term | 700.00 | ACUITE BBB- Stable (Reaffirmed) |
| 04 Feb 2020 | Term Loan | Long Term | 700.00 | ACUITE BBB- Stable (Assigned) |

Annexure - Details of instruments rated

| Lender's Name | ISIN | Facilities | Date Of Issuance | Coupon Rate | Maturity Date | Quantum (Rs. Cr.) | Rating |
|-----------------------------|----------------|------------|------------------|-------------|---------------|-------------------|---|
| PNB Housing Finance Limited | Not Applicable | Term Loan | 19-09-2018 | 11.0 | 19-09-2023 | 700.00 | ACUITE BBB- Reaffirmed Rating Watch with Developing Implication |

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About Acuité Ratings & Research

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